

Assessment of Credit Management of Vision Fund Micro Finance Instruction (In Case of Wolaita Sodo Town)

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Abstract

The main objective of this Study would to” assess the credit management of Omomicro finance institutions in Wolaita Sodo town. The study was conducted by censuses method. The data was collected from both primary and secondary data, primary data were conducted through questionnaires and secondary data was collected from written documents and manuals. The research has been interpreted all collected data by using quantitative and qualitative method. Finally, the researcher concludes and recommends the finding based on the point of view of the questionnaires and some other related documents. The loan repayment capacity determination must be reviewed and sufficient enough to extract necessary information. From the study, high interest rate charged by the institution to the borrowing customers. To improve this, the study recommends that microfinance institution review its interest rate rates regularly totally with the prevailing market conditions. Despite many favorable situations the microfinance industry in Ethiopia such as microfinance institution is facing an immense problems it is therefore, essential to undertake proper planning by assessing the overall situation of the industry to exploit opportunities and minimize changes and weakness. In height of findings of the study the recommendations can also be forwarded.

1. INTRODUCTION

1.1 Back ground of the study

Microfinance institution is the institution that provides financial intermediation through distribution of small loans, accepting of small saving and provision of other financial services to the poor (low income level households) self-employed entrepreneurs and small business enterprises. In developing countries such as Ethiopian, formal financial sectors failed to provide the poor with financial services. This is because of the transaction of cost of dealing with small loans is high and the poor lack collateral. Because of this and other problems, microfinance institution began to emerge. (Mike G, DavidG.2000).

According to proclamation No 40/1196 any institution wanted to competitive advantage and many engage in microfinance should fulfill the following criteria's. Obtain a license from national bank of Ethiopia, be formed as accompany and deposit with a bank the minimum of birr 200,000,000. The proclamation has also authorized the national bank of Ethiopia to issue directives at any time and prescribed additional conditions to be complied with before the license was issued. A micro fiancé institution also act as financial intermediaries between small business that were in need of fund in the form of credit and other small business and low income level households that wanted to save portion of this income. Credit provision and saving mobilization were the core finical products and service provided by microfinance institutions. (AbebeTiruneh 2006).

Micro finance institutions were different from conventional bank in that micro finance institution provide credit in most easy and accessible way than conventional banks .unlike conventional banks they don't require physical collateral for loan ,rather they use other CREDIT managements among which solidarity group credit management was the one in which members of the group were mutually responsible for insuring individual loans were repaid. The operation as well as administrative cost per loan is higher than that of conventional banks (Lederwood , 2009).

Vision Fund Micro Finance Institution Sodo Branch is one of among twenty four MFI in Ethiopia, which is formally established on December 12, 1997 and registered as a business entity under the Ethiopia Commercial law and proclamation No, 40/1996. It undertakes delivery financial and non-financial service to the able to (it implies a poor who can do or capable to act but no budget or money due to poor). It implies a poor who can do or capable to act but no budget or money due to poor) who are willing, capable and ready to engage in to productive Economic activities. The institution focuses on the delivery of basic and creation of enabling environment for the cultivation, development and expansion of micro enterprise that create productive employment and income generation for the urban and rural poor. This research study to identify the credit managements of vision fund Wolaita Sodo town.

Statement of the problem

One of the main activities of micro finance is credit .This was evidenced by the volume of loans that constitute and annual substantial increases in the amount of credit granted to borrowers in public and private sector of the

economy (Daniała,2008).

One of the key issues facing the microfinance industry today is the high percentage of loans that are not paid on the due date. Delinquency is the largely serious problem which plays a critical role on profitability of MFI. If the loan portfolio is not paid on the due date MFI cannot achieve its goal. Delinquency is the main problem that decreases the institutions loan portfolio. Delinquency caused by different types of problems, but this research paper will attempts to address the following major problem areas (Worku 2000).

Formal financial institutions such as banks need physical or human collateral to give loan .But one of advantage of micro financing institutions is no need of collateral instead they used solidarity group credit managements in which members of the group were mutually responsible for insuring individual loans were repaid and individual credit managements ,in which some micro finance institutions used solidarity group credit managements ,the problems of collateral by individual clients was resolved, but on the other hand it may create another problems among the group members. The group members failed the burden to other members. Therefore this research study to identify the credit managements of vision fund Wolaita Sodo town.

Objective of the study

General objective

The general objective of the study was to assess the credit managements of vision fund Wolaita Sodo town.

Specific objective

- To identify the challenges and opportunity of vision fund micro finance as an institution.
- To identify the primary criteria for evaluation of loan vision fund microfinance institution of loan request.

RESEARCH METHODOLOGY

Research Design

A Research Design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research design is the conceptual structure with research is conducted it constitutes a blue print for the collection measurement and analysis of Data. The study would use descriptive method. Because it makes the study open to the respondents and enable the researches to learn about the knowledge, attitude and experience of the people (respondents).

Description of the Study area

Location Wolaita sodo town was the administrative center of wolaita Zone and it had a latitude and longitude of 6 54'N 37 45'E /6,900N 37.750' E with an elevation of 1600m above sea level .This town was located 333kms from Addis Ababa and 170km away from the SNNP's region capital Hawassa. Based on the 2007 census conducted by the central statistical Authority (CSA), this town had a total population of 76,050, of whom 40,140 were men and 35,910 were women. Accordingly, the majorities of inhabitants were Protestants and were about 54.61%, Ethiopian Orthodox Christianity 38.43%, Muslim 4.76% and catholic were about 1.28%.

Located in the tropics at high altitude, Sodo possessed a well moderated subtropical highland climate with a pronounced pattern of wet summers and dry winters, despite being located in the Northern Hemisphere, Sodo was actually cooler in the summer than the winter due to much higher rainfall in the high sun season ,a phenomenon common to SNNP region . Sodo possessed 15.1 mean annual temperature and mean annual rain fall between 1200.4 & 1300mm.

Sampling technique and Sample size

The Sampling technique for the study is one of the Judgment sampling techniques (census) that are non-probability sampling technique. The reason for using judgmental non-probability sampling technique is because the respondents are not homogeneous as well as the numbers of respondents are small. The target population of the research will be manager and employees of the institution only .The total number of employee is 22. The total number of respondents will be taken as sample by using census sampling technique.

Data type and sources of data

The study would have used primary and secondary data. The data were gathered from primary and secondary data. The primary sources of data would be collected from questionnaires' and interview. The secondary sources of data would be collected from Magazines and manuals

Method of data collection

The study has been conducted based on primary and secondary data for, primary data questionnaires was developed based on the researcher problem identified and distributed to customers of the assessment of credit management in vision fund microfinance institution to collect information. Structured interview was also

developed to collect necessary information's from manager or employer and credit and saving institution of the officer of the microfinance. The questionnaires that will be used by the researcher will be both open-ended and closed ended. The secondary data will be collected from Magazines and manuals.

Method of data analysis

The researcher would put (present) the data in a percentage and in a tabulation form. Because both help the researcher to put the data in a formal, described, short understandable and precise manner.

DATA ANALYSIS AND INTERPRETATION

Presentation and analysis of primary data

The primary data used for this study was collected from two types of respondents, from microfinance institution staff working on loan and from the borrowers. These two groups are selected, because surveying and presenting the opinion of these groups especially customers was believed to be relevant and meaningful to study the problem properly. Therefore, the researcher tried to analyze the questionnaire collected one by one.

Table 4.1 Number of respondents by marital status

Marital status	Number of Respondents				
	Female	Male	% Female	% Male	Total
married	8	9	36.4	40.9	77.5
unmarried	3	2	13.6	9.1	22.7
divorced	-	-	-	-	-
total	11	11	50	50	100

Sources-compiled from questionnaires

Table 4.1 indicates that 17(77.3%) of the respondents responded that marital status of them are married and remaining 5(22.7%) of respondents responded unmarried and none of them are divorced. What is concluded from the above table is that many of the clients are married.

Table 4.2 Number of respondents by an educational level

Educational level	Number of Respondents				
	Female	Male	% Female	% Male	Total
Primary education	-	-	-	-	-
Secondary education	2	3	9.1	13.6	22.7
Diploma	5	4	22.7	18.2	40.9
Degree	4	6	18.2	18.2	36.4
total	11	11	50	50	100

Source: compiled from questionnaire, 2017

From the above table indicates that none of these respondents are in primary education level. More than half of the clients are educational.

Table 4.3 the choice of alternative Management of credit

Type of Loan	Number of Respondents	Percentage (%)
Individual credit	15	68.2
Group credit	7	31.8
total	22	100

Source: compiled from primary data, 2017

Table 4.3 shows that 15(68.2%) of respondents responded that choice individual credit and the remaining 7(31.8%) responded that their choice is group credit. The researcher concluded from Table 4.3 most of the borrowers of Wolaita Sodo Town prefer Individual credit Management. As to the plan and program service head of borrowing for individual credit better than borrowing group due to his/her responses. Group credit is more difficult than individual credit. In individual credit the loan size is high and longer maturity date in relation to group credit because the individual borrowers are assumed medium income level borrowing, they are most likely to repay the loan at the maturity date. As to plan and program service hand, another advantage of individual credit over group credit is that in the case group credit all members of the group to may fail to repay the loan but in individual credit managements, even if an individual borrower fails repay the property (personal collateral) become responsible for the loan).

Table 4.4 Kind of the loan and size of the loan

Loan Type	Loan size in birr		Maximum loan terms in months	Interest rate (%)	Service charge	
	minimum	maximum				
Micro loan	700	500	24	9	2	1%
Small loan	200,000	250,000	36	9	2	1%
Consumption loan	700		24	10		1%
Agricultural loan	700	250,000	18	9	2	2%
Micro lease loan	10,000	250,000	36	9	2	2%
Short term loan	30,000	10,000	6	1.51	-	1%
Housing loan	700	50,000	60	10	2	2%

Sources: compiled from Primary data, 2017

As the researcher concluded from the above table, these are seven (7) types of loans provided by Sodo town. Based on the data gathered from Sodo town these are different criteria for each loan type. For example, micro loan is provided for business that does not require a license; small loan is provided for business whole initial capital require more than 5000 birr business established before; consumption loan is provided for permanent worker governmental organization, agricultural loan is provided for customers engaged in animal husbandry, farming, horticulture, poultry etc. Micro leases loan is provided for legal ownership of the house and for individual having permanent income from business or other sources. The researcher concluded from the above table the majority of the loan types provided by Sodo town have minimum loan size of 700 birr. Loan types with minimum of 700 birr are microloan, consumption loan, agricultural loan and housing loan. This implies that the majority of Wolaita Sodo needs minimum loan size of 700 birr, on the other hand the maximum loan size provided by Sodo town is 250,000 which is provided for small loan, agricultural loan and micro lease loan.

Table 4.5 sufficiency of loan and repayment period

Questions to be asked	Number of respondent		percentage
	yes	no	
Sufficiency of the loan	16(72.7)	6(27.3)	100
Repayment period	14(63.6)	8(36.4)	100
Total of yes and no	36	36	100

Source: compiled from primary data, 2017

Table 4.5 shows that 16(72.7) of respondents responded that the amount of loan provided by the Sodo town is sufficient to operate our business activity. But the remaining 6(27.3%) responded that the loan is not sufficient for the operation of their business activity. As the researcher concludes from the table above more respondents responded that the loan amount is sufficient for their business activity. In the second row of the table 4.5, 14(63.6%) of respondents responded that the time given to repay the loan is sufficient but the remaining 8(36.4%) clients are in need of adjustment period.

Table 4.6 Responses on customer satisfaction in relation with the institution loan processing requirement

Do you think that customer is satisfied in relation with the institutions loan processing requirement?	Number of respondents	percentage
Yes	19	86.4
No	3	13.6
Total	22	100

Source: from primary data, 2017

As shown in table 4.6 3(13.6) of the respondents responded that customers are not satisfied by the institutions credit processing requirement while the rest 19(86.4) indicated that customers are being satisfied with the loan processing requirement of the institution. This showed institutions prerequisites for credit processing are appropriate. In fact the institution main objective is satisfying their customers, so continue with the request for credit and other guidelines.

Table 4.7 responses on collateral criteria for evaluation of loan request

Is collateral the primary criteria for evaluation of loan requests?	Number of respondents	percentage
Yes	7	31.8
No	15	68.2
TOTAL	22	100

Source: compiled from primary data, 2017

As shown in table 4.7 7(31.8%) responded collateral is the primary criteria for evaluating loan request whereas, 15(68.2%) of the respondents mentioned collateral is not as one of the primary criteria for loan request rather they indicated that group guarantee is vital thing to obtain a loan. Therefore, collateral is not the only primary criteria for evaluating loan request rather than group guarantee.

Table 4.8 Type of loan extended by OMO microfinance institution in Wolaita Sodo branch

What type of loan does the institution give for the customer and what is annual interest charge to the institution and what directive it to be leave?	Number of respondents	percentages
Short term loan	14	63.6
Long term loan	0	0
Medium term loan	8	36.4
total	22	100

Source: From primary data

As shown in table 4.8 , 8(36.45) respondents said that the institution lends medium term loan while 14(63.6%) responded the institution make the short term loan for the customer, and the institution charge interest rate of 5% and it may charge based on the direction of national Bank of Ethiopia. In addition as per the new credit policy, the institution customer may charge various interest rates on their loan recovery history, business strength and other similar factors.

Table 4.9 Responses on the problems of credit assessment in Omo Microfinance institution.

Do you think that there are problems on the credit assessment in a MFI?	Number of respondents	percentage
Yes	15	68.2
No	7	31.8
Total	22	100

Source: primary data, 2017

As shown in Table 4.9, 7(31.8%) of the respondents feel there is no problem. But, 15(68.2%) said there is a problem in the institutions credit assessment. Therefore, the researcher can conclude that there are problems. The respondents assume that the credit assessment report is not properly filled by the loan officer and does not provide genuine information about the loan and there is a miss use of fund. In addition its updating information is weak and also financial analysis relies on personal judgment this indicates there are a problems on credit assessment in the institution.

Interview Results Qualitative Analysis

Interview has been conducted with the managers of microfinance institution during the study time. Regarding the objectives of the interviews the manager has responded as follows, the main objective of the Microfinance institutions are poverty reduction, empowerment of women, employment creation and widening the poor of entrepreneurship available to the society and broad the base of the private sector.

A. Poverty Reduction

Microfinance institutions allow the poor to the diversity their income sources and increase their income. They also help to ensure a better distribution to the poor by allowing to then active participation in the rural economy. Microfinance institutions influence an individual households and national economy as big as predominant sources for many people.

B. The empowerment of women

As the participation of women in the rural economy increases there is an increased opportunity for women to assert their peace bath in household decision making and society this is what we call greater social economic empowerment.

C. Employment creation

Microenterprise provides employment for increasing number of people worldwide. In this area, populations rapidly increasing in the developing countries but resources like lands are fixed. This means the more and more people becoming land less and the per capital holdings of those who own land are becoming very small to satisfy households food and income requirement. The number of people who diversify their source of income through employment with microenterprises has thus become significant.

D. Widening the poor of entrepreneurship available to society and broad the base of the private sector.

Development is ultimately expected to transform developing country economics from the dominance of agriculture to that of modern industrial service sector.

1. Regarding the number of clients that the Omo microfinance institution, the manager of the institution has given the following data

Table 4.10 Number of client of the branch

no	year	Number of clients
1	2004	5060
2	2005	6100
3	2006	6800

Source: from primary data, 2017

From 2004 to 2005 the number of clients increased and in 2006 the number of clients increased by 1.9 times of the 2005 number of clients. Generally when we conclude from the above figure there is an increase in the number of clients from year. This implies good work have been done by the branch of Wolaita Sodo town credit and saving institution to reach more clients.

As the information obtained from the office of Omo microfinance institution the target groups of the OMFIS are the individual households those run their business solely in the small market or in their fields of activities such as farming and small value commodity trading activities. The other target group of the institution is micro and small enterprises.

As the name implies, Micro and small enterprise are these undertaking small business activities. They are informally organized. Commercial operations often employing less than ten people including family members and are usually family owned. Based on the obtained information the target group of the OMFIS is individual households, Micro and small enterprises and association and co-operatives are the major target group of the institutions.

As the major information obtained for the officer of microfinance institution the main source of their capital comes from saving and deposits on a loan amount they lend to the borrower or interest on debt by the target group such as household borrowers, Micro and small enterprise to the bank and other financial institutions from money loaned them.

The institution performs awareness creation activities for your target group. In this aspect the activities includes advertising the clients did not use loan for consumption rather than they use the loan(the borrower money) for the purpose of expanding their business, increase productivity, initiate new business and generally making the clients to be profitable in their field of operation and support them from the obtained profit.

Educating the clients did not use loan for consumption by purposes: Design a logo that want to target about your product or public service announcement decide whom you want to target about your product or Public Service Company. Develop a small booklet that contains vital information about your product or information that you want distributed.

As the researcher obtained information from the coordinators of OMFIS. The information provide general training to the client and job oriented training to the staff and workers of the information since making the enterprises access to training is very essential for their development because training applied to any transfer of knowledge, skills or an attitude which is organized to prepare people for more productivity in activities or to change their working environment unlike formal educational programs, short term skill training directly and indirectly affects the performance of OMFIS operators. In this respect, no formal training might be directs to people who have never gone to school. The institution by considering the usefulness of training services and in renders such training service for clients and job oriented service(work shop) to the staff members.

This would help the member in adhering to the clients schedule for worker and help them to overcome the problems confronted. For the above question the officer of WolaitaSodo town credit and saving institution answer “yes” and the researcher again asked how do you improved through general training and hinting another qualified personnel.

The sustainability of Wolaita sodo town credit and saving institution was evaluated in terms of generating enough revenue from different sources to cover the cost of production and loan able funds. Wolaita sodo town credit and saving gives loan and a group base one group may constitutes 4.8 persons this group chooses their own chairman (leader). After this process is computed the loan is to members of a group. The collateral system used is known as group’s liabilities.

If one person is deflated loan another loan with not by given to other members in the first terms of the loan the institution give from 1,000-10, 000 birr and the loan period was 4.6.8 months and one year. In the second term, the loan become up to double after performance of the clients is evaluated by the credit officer and chairman of the group and the loan period is depend on the kind of the work they perform for examples farmers they product maize the institution gives 5 month loan because maize reaches for market in 5 months.

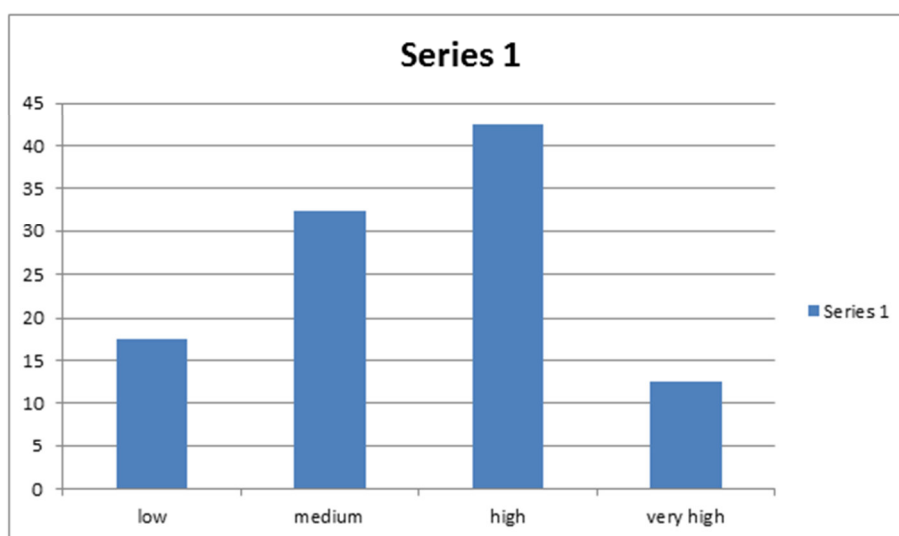


Fig 1. Interest rate on loan

Source: from secondary data, 2017

From the above table 42.45 of loan interest rate indicate medium 17.55 of loan interest rate is low and 12.55 of loan interest rate is very high. From this we can say that officers are needed to the loan with a medium amount because they compare with NGO's they have mentalists of non government organization this means clients think that the amount of money available in the institution is given as a donation by foreigners so they are not willing to pay high loan interest rate. But there are no other opportunities that can give loan without interest or than the interest of loan and saving the clients use OMFIS.

Based on the researcher asked the manager which target group is better in repayment its debits? All of the sample clients are paid their debit on time due to the restrict rule to punishment if one clients passed his/her due date he/she seriously punishable of birr five per day. Decreasing loan size in the future, prohibiting them from other service and removing from the second loan punishment render clients to pay debit on time.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The credit managements of the member of a group are formed based on self selection methodology of group formulations which includes 3 to 5 members, and group leaders are selected among the members of each group. According to Sodo town policy 2002, one of the group members is selected to assume responsibility is given to the group leader for any unpaid balance of loan.

Sodo town provides loan size minimum of 700 birr. There may exist poor individuals who need to borrow less than birr 700 and cannot provide adequate collateral. In sufficient of the loan repayment capacity determination criteria this results for loan collection problems. The institutions credit procedure has a problem such as long processing time, limited loan amount, repetition of documents during renewal, time taking and high interest rate and misunderstanding with the customer.

Recommendations

Despite many favorable situations the microfinance industry in Ethiopia such as Wolaita Sodo is facing an immense problems it is therefore, essential to undertake proper planning by assessing the overall situation of the industry to exploit opportunities and minimize changes and weakness. In height of findings of the study the following recommendations can be forwarded. Since the groups are formed based on self-selection methodology of group formulation, those individuals who are very poor are become unwilling to include the very poor in the group. In order to alleviate this problem and provide loan for those very poor Wolaita Sodo town microfinance institution, should adopt another method of group formulation. As to the study the minimum loan size of Sodo town OMFI is 700 birr. This is to mean that individuals who need less than 700 birr one served after making necessary investigation; they should include of microfinance institution is poor they should include them as clients. The loan repayment capacity determination must be reviewed and sufficient enough to extract necessary information.

From the study, high interest rate charged by the institution to the borrowing customers. To improve this, the study recommends that microfinance institution review its interest rate rates regularly totally with the prevailing market conditions.

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